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SKLAR
MANUFACTURING LIMITED

ANNUAL REPORT 1969

Directors

Douglas R. Annett — Toronto, Ontario
President, Annett Partners Limited

Allan L. Beattie, Q.C. — Toronto, Ontario
Osler, Hoskin & Harcourt

Paul F. Black — Etobicoke, Ontario
Associate Treasurer,
Manufacturers Life Insurance Company

T. Richard Bradbury — Thornhill, Ontario
Vice-President, Annett Partners Limited

Edwin T. Cohen — Willowdale, Ontario
Assistant Vice-President,
UNAS Investments Limited

Robert Ducas — New York, U.S.A.
Limited Partner, Burnham & Company

Joseph Sklar — Willowdale, Ontario
Executive

Louis Sklar — Oshawa, Ontario
Executive

Samuel Sklar — Thornhill, Ontario
Executive

Jack B. Whitely — Baie D'Urfe, Quebec
President, St. Maurice Gas Inc.

Officers

Douglas R. Annett — *Chairman of the Board*

Samuel Sklar — *President*

Louis Sklar — *Vice-President and General Manager*

Joseph Sklar — *Vice-President, Design and Product Development*

John E. Sands — *Secretary-Treasurer*

Company Addresses

Head Office and Sklar factory —
617 Victoria Street, East,
Whitby, Ontario
Telephone 416-924-7463

Peppler factories —
Hanover, Ontario
Telephone 519-364-1640

Fitton-Parker factory —
Southampton, Ontario
Telephone 519-797-3237

Transfer Agents and Registrars

Common Shares —
Montreal Trust Company,
Toronto and Montreal

First Mortgage Sinking Fund Bonds —
Canada Permanent Trust Company,
Toronto

Convertible Subordinate General Mortgage Debentures —
National Trust Company,
Toronto and Montreal

Convertible Collateral Trust Income Debentures —
Royal Trust Company, Toronto

Auditors

Clarkson, Gordon & Co.
Soberman, Isenbaum, Colomby & Nisker

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SKLAR
MANUFACTURING LIMITED

(Incorporated under the laws of Ontario)
and subsidiary companies

INTERIM REPORT, 1969

Consolidated Statement of Profit and Loss
For The Period January 1 to July 12, 1969 (Note 1)

(with comparative figures for 1968 - Note 2)

IN THOUSANDS OF DOLLARS

	1969	1968	
	July 12	July 13	June 15
Net Sales	$ 7209	$ 6631	$ 5641
Deductions			
Cost of goods sold	5406	5134	4384
Marketing expenses	672	581	498
General and administrative expenses	537	495	400
Depreciation	162	163	139
Interest on bank indebtedness	63	111	97
Interest on long-term debt	119	166	143
	6959	6650	5661
Net Profit (Loss) for the Period (Note 3)	$ 250	$ (19)	$ (20)

Consolidated

July 12, 1

(with comparative fi

IN THOUSAN

ASSETS

	1969	1968	
	July 12	*July 13*	*June 15*
Current Assets:			
Accounts receivable	$ 2383	$ 1970	$ 2054
Inventories, at the lower of cost and net realizable value	3040	2499	2453
Prepaid expenses	89	93	105
Total current assets	5512	4562	4612
Property, Plant and Equipment -			
at cost, less accumulated depreciation	3178	3290	3312
	$ 8690	$ 7852	$ 7924

alance Sheet

9 (Note 1)

s for 1968 - Note 2)

OF DOLLARS

LIABILITIES

	1969	1968	
	July 12	July 13	June 15
Current Liabilities:			
Bank indebtedness	$ 1982	$ 2572	$ 2845
Accounts payable and accrued charges	872	1292	1183
Sales and other taxes payable	286	233	167
Long-term debt due within one year	25	681	657
Total current liabilities	3165	4778	4852
Non-Current Liabilities:			
Long-term debt	3661	3928	3928
Less unamortized debt discount and expense	187	187	188
	3474	3741	3740
Shareholders' Equity:			
Capital stock	6063	3714	3714
Contributed surplus	8	8	8
(Deficit) Beginning of Period	(4270)	(4370)	(4370)
Net Profit (Loss) for the Period	250	(19)	(20)
(Deficit) End of Period	(4020)	(4389)	(4390)
	2051	(667)	(668)
	$ 8690	$ 7852	$ 7924

Consolidated Statement of Source and Application of Funds

For The Period January 1 to July 12, 1969 (Note 1)

(with comparative figures for 1968 - Note 2)

IN THOUSANDS OF DOLLARS

	1969	1968	
	July 12	*July 13*	*June 15*
Source of Funds			
Net profit (loss) for the period	$ 250	$ (19)	$ (20)
Add back charges not requiring funds -			
Depreciation	162	163	139
Amortization of debt discount and expense	6	8	7
Funds provided from operations	418	152	126
Proceeds from issue of shares	1488	—	—
	1906	152	126
Application of Funds			
Additions to plant and equipment, net	98	55	53
Increase in Working Capital	1808	97	73
Working Capital (Deficiency), Beginning of Period	539	(313)	(313)
Working Capital (Deficiency), End of Period	$ 2347	$ (216)	$ (240)

Notes To Consolidated Financial Statements, July 12, 1969

1. Company records are kept by four-week accounting periods. The period ended July 12, 1969 is closest to the end of the first six months.
2. The 1968 interim report was prepared to June 15, 1968. Comparative figures are provided to July 13, 1968, as well as to June 15, 1968. Descriptions and amounts used in the 1968 report have been revised where necessary to be consistent with 1969.
3. Income taxes in the amount of $115,000, which would otherwise be payable in respect of 1969 to July 12, have been eliminated by the carry-forward of losses from prior years.

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SKLAR MANUFACTURING LIMITED

MANAGEMENT REPORT TO SHAREHOLDERS

ANNUAL SHAREHOLDERS' MEETING

JUNE 13, 1969

I am pleased to report on the progress your Company has made during the past year and a half. After the disastrous year of 1967 when the management of the Company was completely reorganized, we projected that the best we could hope for in 1968 would be to break even. We exceeded this objective by $100,000. Results for the first quarter of this year reflect a continuing trend towards improved profitability. The net profit for the first quarter, after taking advantage of available tax credits, amounted to approximately $125,000. Furniture manufacturing is a seasonal business with the low point during the first half of the year and the high during the second half. Assuming that the overall consumer goods markets continue to be buoyant, the Company should finish the year with a profit, after taking advantage of tax credits, of $550,000 to $750,000.

You have all received copies of the 1968 Annual Report. I should like to spend a few moments reviewing the financial highlights of 1968 as they are reflected in the Report.

The statement of profit and loss shows an increase in sales volume of approximately $1 million. This was achieved despite the sale of the Peppler-Selig Division late in 1967 and the resultant loss of its sales volume for the whole of 1968. The increase was achieved mainly at the Peppler Division where production is being expanded as rapidly as possible to meet a strong market demand for Peppler products and to utilize as fully as possible the production potential of the Hanover plants. Costs of all kinds were reduced substantially in 1968. In fact, the increased sales volume of $1 million was achieved with operating costs in total approximately $300,000 less than the previous year.

The Company's working capital position improved during the year by approximately $850,000. Operations added working capital of more than $400,000, the financial reorganization of the Company added almost half a million and the sale of the capital equipment of Peppler-Selig added a further $100,000 for a total of $1 million. Of this, $150,000, approximately, was used to add new production equipment.

After the year end, a block of treasury shares was sold to institutional investors. This added a further one and one-half million dollars, approximately, to working capital. The result of this transaction on the financial position of the Company is shown in the pro-forma consolidated balance sheet included in the Annual Report. This balance sheet indicates a very healthy working capital position in excess of $2 million and a positive shareholders' equity after writing off $2,800,000 of goodwill first recorded in the accounts in 1966.

Consolidated Statement of Source and Application of Funds

For The Period [illegible] (Note 1)

This year our sales target for the Sklar and Peppler Divisions is $15 million and to date we are on target. We have experienced some difficulties during the first half at the Sklar Division in obtaining adequate supplies of upholstery fabrics but we have undertaken a planned program of fabric purchasing and control from both foreign and domestic sources and are overcoming the problem.

The Company held showings of new furniture styles in both January and May of this year. Both showings were unqualified successes producing record order bookings. The order backlog at the Peppler Division is so large in fact that our biggest problem is supplying our dealers with adequate stocks of merchandise.

With our financial house now in order, we are ready to take the next big leap forward. Canada is an expanding market for home furnishings with increasing population, family formations, housing requirements and disposable incomes. This environment is ideal for a Company such as yours that can offer products of high quality at attractive prices by operating modern and efficient production facilities on a large scale.

The Sklar and Peppler facilities are now active in the medium priced ranges of upholstered and wooden home furniture. Sklar has a relatively large proportion of the upholstered market. Our efforts in this market are now being devoted to upgrading our products and to improving profit margins and not to further expansion. Our experience at Peppler indicates that we can profitably obtain much greater market penetration. We are therefore expanding production at the Hanover plants as quickly as possible. Our target for 1969 is to increase production and sales from Hanover by approximately 60% over the 1968 level.

In addition to the expansion of the Peppler operations, we are looking for growth through the acquisition of new facilities. We believe the Company should continue to diversify and to expand its markets. We believe we should move into the lower price ranges of upholstered and wood furniture and we are working towards the acquisition of companies or suitable facilities in these areas. Higher priced markets are relatively limited so we would not plan to enter these unless a particularly good opportunity should arise.

Opportunities exist, as well, to move into other areas of furnishings. We are looking at possibilities in lighting, in kitchen furniture and in office furniture.

Recent experiences in obtaining adequate supplies of fabrics and, to a lesser extent, of wood indicate that there are advantages to owning our own sources of supply of some important raw materials. We are currently investigating this kind of integration as well.

As we explained in the Annual Report, we have set up an export department and have begun shipping to both the United Kingdom and the United States. Your President has personally taken the responsibility for directing our export program and I can assure you that we are making real progress. The potential in the U.S. market dwarfs even the most optimistic forecast of domestic sales. The Kennedy round of tariff reductions makes our prices very competitive and our high quality more than meets the demands of the U.S. market. Mr. Benson's recent announcement of an acceleration in the reduction of tariffs is an added stimulus to our efforts. Competing against the U.S. giants will not be easy but we are confident enough to make a strong effort.

In view of what happened a year or two ago, you may be wondering how we plan to finance the attainment of these objectives. I can assure you that we are most conscious of this aspect of the program. We cannot rely too heavily on debt financing. On the other hand, we cannot dilute the equity of existing shareholders. Our growth will be financed by a careful blending of debt and equity financing such that our fixed debt charges never threaten solvency and at the same time that the earnings per share of stock continue to grow.

In addition to sound financing, a Company requires sound management. During the recent past the Sklar family has received much of the credit for whatever success the Company has shown. I should like to point out that over the past few years we have been building a strong group of management people in all areas of the Company and that any success we have achieved or will achieve in the future should be attributed to a large extent to their important contributions. Also, when looking at potential acquisitions, the addition of new high quality management to our team will be an important factor.

In conclusion, may I say simply that based on present indications we believe we can achieve the original objective of this Company to become the leading producer of home furnishings in Canada and, if our export plans are successful, one of the leading producers on the continent.

President's Report

On behalf of the Board of Directors, I am pleased to be able to report to you again on the progress being shown by your Company.

During 1969, the Company maintained the improvement in performance initiated in the second half of 1967 and reflected in the 1968 report. Profit levels at the Sklar and Peppler Divisions reached the half million dollar objective established at the beginning of the year. Total consolidated profit was reduced slightly below the $500,000 mark by start-up costs at the newly-acquired Fitton-Parker Division.

Expanding sales volumes are a reflection of style leadership and aggressive marketing. Peppler sales expanded approximately 40% during the year. Added to this were the sales of Fitton-Parker products. At the Sklar Division, the emphasis was on improving profit margins but some increase in sales volume was achieved there as well.

Your Company's export development program experienced better success than anticipated. We now have strong sales representation in the North-Eastern and South-Western United States, the two most prosperous parts of North America, with entree into many of the major retail outlets in these two areas. Our objective now is to develop these markets and from this base to expand further throughout the United States. I am personally supervising this important aspect of your Company's growth plans.

Production efficiencies continued to improve during the year, particularly at the Peppler Division. New manufacturing techniques and processes are being developed rapidly in the furniture industry. We are taking an aggressive approach to these new developments in order to retain our position of leadership in the industry.

The financial stability of the Company improved markedly early in the year with the issue of 350,000 new shares for approximately 1½ million dollars. In addition, $840,000 was added to equity with the conversion of collateral trust debentures and the exercise of share purchase warrants.

Effective June 30th, 1969, your Company took another step in its program of corporate expansion with the acquisition of Fitton-Parker Furniture Limited of Southampton, Ontario. This company is now working in close cooperation with Peppler, allowing for increased specialization and longer production runs and as a result, improved efficiencies at both locations. Fitton-Parker was on the verge of bankruptcy at the time of acquisition. Immediate corrective action was undertaken and the company is now operating profitably.

Indications are that the 70's will be a bountiful decade for the home furnishings industry. Economic projections indicate a 25% increase in family formations by the mid-70's and nearly one quarter of the total household furnishings sold each year is sold to new families. Your Company is gearing to take advantage of this boom.

Your Company's growth program has been restricted temporarily by the current tightening of the economy. We are continuing to enjoy relatively high sales levels but not sufficient to maintain the rate of growth established in 1968 and 1969. We have been compelled therefore to alter our plans for expansion in 1970. However, we are continuing to lay the groundwork for expansion both internal and external when funds are more readily available.

On behalf of the board,

Samuel Sklar, President.

May 6, 1970

Financial Highlights

(DOLLAR AMOUNTS IN THOUSANDS)

	1969	1968
SALES	$14,831	$13,023
PROFITS	471	100
CASH FLOW	831	407
WORKING CAPITAL	2,327	539
DEPRECIATION	353	305
ADDITIONS TO FIXED ASSETS	223	149
TOTAL ASSETS	11,027	7,671
INTEREST PAID—CURRENT	151	203
—LONG TERM	235	226
LONG TERM DEBT	3,405	4,326
EQUITY	2,076	(545)
PROFITS PER SHARE	27¢	10¢
CASH FLOW PER SHARE	48¢	40¢
SHARES OUTSTANDING	1,787,541	1,081,540
NUMBER OF SHAREHOLDERS	1,604	737

Consolidated Statement of Profit and Loss

for the year ended December 31, 1969

(with comparative figures for 1968)

IN THOUSANDS OF DOLLARS

	1969	1968
NET SALES	**$14,831**	$13,023
OPERATING COSTS AND EXPENSES:		
Cost of goods sold	**11,179**	10,184
Marketing expenses	**1,429**	1,140
General and administrative expenses	**1,001**	860
Depreciation	**353**	305
Interest on bank indebtedness	**151**	203
Interest on long-term debt	**235**	226
	14,348	12,918
OPERATING PROFIT BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS*	**483**	105
INCOME TAXES (note 7)	**295**	57
PROFIT BEFORE EXTRAORDINARY ITEMS	**188**	48
ADD (DEDUCT) EXTRAORDINARY ITEMS:		
Reduction in current year's income taxes as a result of loss carry-forward	**295**	57
Other	**(12)**	(5)
NET PROFIT FOR THE YEAR	**$ 471**	$ 100
* The operating profit before income taxes and extraordinary items is comprised of —		
Profit of Sklar Manufacturing Limited	**$ 513**	$ 105
Loss of Fitton-Parker (note 1)	**(30)**	
	$ 483	$ 105

(See accompanying notes to consolidated financial statements)

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Consolidated Balance Sheet

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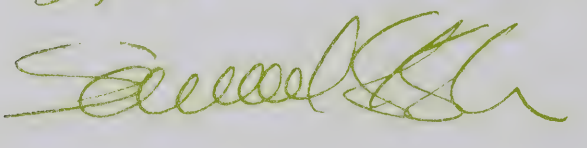
IN THOUSA

ASSETS

	1969	1968
CURRENT ASSETS:		
Accounts receivable	**$ 3,425**	$ 2,174
Inventories (note 2)	**4,343**	2,201
Prepaid expenses	**105**	54
Total current assets	**7,873**	4,429
PROPERTY, PLANT AND EQUIPMENT: (note 3)	**3,154**	3,242
	$11,027	$ 7,671

On behalf of the Board:

Director



Director

(See accompanying notes to

TURING LIMITED

the laws of Ontario)
y companies

December 31, 1969

figures for 1968)
OF DOLLARS

LIABILITIES

	1969	1968
CURRENT LIABILITIES:		
Bank indebtedness (note 4)	**$ 2,280**	$ 2,230
Accounts payable and accrued charges	**2,849**	1,458
Sales and other taxes payable	**278**	177
Long-term debt due within one year (note 5)	**139**	25
Total current liabilities	**5,546**	3,890
NON-CURRENT LIABILITIES:		
Long-term debt (notes 4 and 5)	**3,538**	4,519
Less unamortized debt discount and expense	**133**	193
	3,405	4,326
SHAREHOLDERS' EQUITY (DEFICIENCY):		
Capital stock (note 6)	**6,044**	3,717
Contributed surplus	**8**	8
(Deficit)	**(3,976)**	(4,270)
	2,076	(545)
	$11,027	$ 7,671

lidated financial statements)

Consolidated Statement of Source and Application of Funds

for the year ended December 31, 1969

(with comparative figures for 1968)

IN THOUSANDS OF DOLLARS

	1969	1968
SOURCE OF FUNDS:		
Net profit for the year	**$ 471**	$ 100
Add back charges not requiring funds —		
Depreciation	**353**	305
Amortization of debt discount and expense	**7**	2
Funds provided from operations	**831**	407
Proceeds from issue of shares and exercise of warrants (note 6)	**1,490**	3
Sale of property, plant and equipment	**35**	106
Overdue interest payments deferred to 1970-72		226
	2,356	742
APPLICATION OF FUNDS:		
Additions to plant and equipment	**223**	149
Provision for (reduction of) long-term debt due within one year	**139**	(259)
Investment in subsidiary company	**206**	
	568	(110)
INCREASE IN WORKING CAPITAL	**1,788**	852
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR	**539**	(313)
WORKING CAPITAL, END OF YEAR	**$2,327**	$ 539

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Deficit

for the year ended December 31, 1969

(with comparative figures for 1968)

IN THOUSANDS OF DOLLARS

	1969	1968
(DEFICIT), BEGINNING OF YEAR	**$ (4,270)**	$ (1,565)
Deduct write-off of goodwill (note 1)	**(177)**	(2,805)
	(4,447)	(4,370)
Net profit for the year	**471**	100
(DEFICIT), END OF YEAR	**$ (3,976)**	$ (4,270)

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Sklar Manufacturing Limited:

We have examined the consolidated balance sheet of Sklar Manufacturing Limited and subsidiary companies as at December 31, 1969 and the consolidated statements of profit and loss, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Coleman, Gelber, Olsky & Nisker

Toronto, Canada,
March 20, 1970.

Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1969

1. Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries. Effective June 30, 1969, the company purchased all of the outstanding shares of Fitton-Parker Furniture Limited. The "goodwill" acquired (i.e. the excess of the purchase price of the shares over the value of the net tangible assets amounting to $177,000 has been charged to "deficit" account. In the six months ended December 31, 1969, Fitton-Parker suffered a loss on operations of $30,000.

2. Inventories

Inventories are valued at the lower of cost or net realizable value and consist of the following:

	1969	1968
	(thousands)	
Raw materials	$1,735	$1,135
Work in process	1,239	590
Finished goods	1,369	476
	$4,343	$2,201

3. Property, plant and equipment

	Cost	Accumulated Depreciation	Net Investment 1969	1968
	(thousands)			
Land	$ 62		$ 62	$ 61
Buildings	1,904	$ 331	1,573	1,619
Leasehold improvements	249	64	185	188
Machinery and equipment	3,207	1,873	1,334	1,374
	$5,422	$2,268	$3,154	$3,242

4. Security for indebtedness

Bank indebtedness is secured by pledges of the accounts receivable and the inventories, together with a third floating charge debenture in the amount of $1,000,000 on all other assets. The first mortgage bonds and the general mortgage income debentures are secured by first and second mortgages respectively on the fixed assets and first and second floating charges on all other assets. The collateral trust income debentures are secured by a pledge of the shares of the subsidiary companies.

5. Long-term debt

	1969	1968
	(thousands)	
First mortgage sinking fund bonds due September 15, 1986, redeemable after September 15, 1971 —		
7½% series A, payable in Canadian dollars	$1,581	$1,600
7% series B, payable in United States dollars (U.S. $500,000)	531	538
Deferred interest due September 15, 1970 and March 15, 1971	158	158
Convertible subordinate general mortgage cumulative income debentures due September 15, 1987, redeemable after September 15, 1973 —		
7½% series A, payable in Canadian dollars	500	500
7% series B, payable in United States dollars (U.S. $400,000)	430	430
Deferred interest due September 15, 1971 and March 15, 1972	68	68
6½% convertible collateral trust non-cumulative income debentures due November 15, 1987, redeemable after November 15, 1969	362	1,250
Loan from Industrial Development Bank due March 23, 1975	47	
	3,677	4,544
Less principal and interest payments due within one year, included in current liabilities	139	25
	$3,538	$4,519

(1) Sinking fund instalments required up to December 31, 1974 for the retirement of the first mortgage bonds are as follows:

1970	$51,000	1973	135,000
1971	76,000	1974	135,000
1972	102,000		

(2) Interest accrues on the general mortgage income debentures and is payable at the earlier of the maturity of the debentures or at such times as the company has consolidated net earnings (as defined) and working capital available for the payment of such interest.

Interest does not accrue on the collateral trust income debentures and is payable only when declared by the directors and only to the extent that the company has consolidated net earnings (as defined) and working capital available for the payment of such interest. No interest was declared payable on the collateral trust debentures in 1969 or 1968.

(3) The trust deed relating to the first mortgage bonds contains certain restrictions on the payment of interest on or the redemption of the general mortgage and collateral trust debentures, and the payment of dividends on the common shares. Under these restrictions, such payments shall not reduce consolidated working capital below $750,000 up to December 31, 1969, such minimum amount increasing by $125,000 during each succeeding six-month period up to June 30, 1972, and remaining at $1,500,000 after June 30, 1972.

The trust deeds relating to the general mortgage and collateral trust debentures provide that no dividends will be paid in any year on the common shares unless the full amount of interest due in that year on the general mortgage and collateral trust debentures has been paid or provided for.

6. Capital stock

	1969	1968
	(thousands)	
Authorized:		
3,500,000 common shares without par value		
Issued:		
1969 — 1,787,541 shares	$6,044	
1968 — 1,081,540 shares		$3,717

The changes in shares outstanding during 1969 are set out below:

	Number of shares	Amount
		(thousands)
Balance outstanding, December 31, 1968	1,081,540	$3,717
Issued during the year:		
For cash at $4.25 per share	350,000	1,487
On conversion of collateral trust income debentures at $2.50 per share, less unamortized discount on the debentures of $51,000	355,200	837
On exercise of share purchase warrants at $3.50 per share	801	3
Balance outstanding, December 31, 1969	1,787,541	$6,044

As at December 31, 1969, 935,699 common shares are reserved as follows:

For possible issue upon the exercise of share purchase warrants outstanding (1)	298,749 shares
For possible issue on conversion of the general mortgage and collateral trust debentures (2)	516,950
For possible issue under the key employees' stock option plan (3)	120,000
	935,699 shares

(1) The warrants entitle the holders thereof to purchase common shares at a price of $3.50 per share until July 1, 1978, subject to adjustment under certain conditions.

(2) The general mortgage and collateral trust debentures are convertible at the holder's option into common shares at the following prices:

Period	Price per share
General mortgage debentures —	
Up to September 15, 1972	$2.50
September 16, 1972 to September 15, 1977	3.50
September 16, 1977 to September 15, 1982	4.50
September 16, 1982 to maturity	5.50
Collateral trust debentures —	
Up to November 15, 1972	2.50
November 16, 1972 to November 15, 1977	3.50
November 16, 1977 to November 15, 1982	4.50
November 16, 1982 to maturity	5.50

(3) A key employees' stock option plan covering 120,000 shares has been established by the directors and approved by the shareholders. No options have been granted to date under the plan.

7. Income taxes

Income taxes otherwise payable of $295,000 on the consolidated earnings for 1969 (i.e. before the application of prior years' losses) represent an effective rate of 61% of the operating profit before taxes. This is due to $60,000 of expenses which are not deductible for tax purposes and the $30,000 operating loss of the subsidiary, Fitton-Parker.

As at December 31, 1969, the company and its subsidiaries have losses available for carry forward as deductions against future years' profits. At current tax rates, the tax credits which would result from the carry forward of these amounts will, if realized, amount to approximately $470,000.

8. Pension plans

Salaried employees participate in a contributory pension plan. Hourly-paid employees in the company's plants at Hanover are covered by a non-contributory joint industry-union pension plan. The total pension cost was $169,000 in 1969 and $123,000 in 1968.

The unfunded past service liability under the salaried plan is $19,000 which is being funded over 12 years.

9. Long-term leases

The company's Whitby plant is held under a long-term lease expiring in 1986, with renewal options for two further five year periods. The fixed annual rental on this property (exclusive of taxes, insurance and maintenance costs) amounts to $114,000 during the primary term of the lease and will decrease by one-third if the renewal options are exercised.

The Toronto and Montreal showrooms are held under leases at fixed annual rentals (exclusive of taxes, insurance and maintenance costs) as follows:

1970 to 1975	$79,000 per year
1976	76,000
1977	23,000

10. Remuneration of directors and senior officers

The total remuneration paid or payable by the company and its subsidiaries to its directors and senior officers amounted to $185,000 in 1969 and $140,000 in 1968.

11. Earnings per share

	1969		1968	
	Profit before extraordinary items	Net profit for the year	Profit before extraordinary items	Net profit for the year
Earnings per share	11¢	27¢	5¢	10¢
Fully diluted earnings per share	10¢	24¢		

Fully diluted earnings per share shows the effect on 1969 earnings which would result if all the general mortgage and collateral trust income debentures and all the outstanding share purchase warrants had been converted and/or exercised as at the beginning of the year. For purposes of calculating fully diluted earnings, earnings were increased by the imputed earnings at the rate of 6% before tax on the amounts received on the exercise of the share purchase warrants.

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